

# THE HOLBROOK NEWS

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## SYSTEM'S HOME OFFICE NOW ON SHAKEY GROUND

**Relations of the First National in the Looting of the Holbrook State to be Probed in the Federal Court. Records Show they Were the Leading Spirit in the Control of the Holbrook Unit. Flagrant Violations of the National Banking Laws Uncovered by the Investigators. Sulky, Defiant Attitude Foreshadows an Upheaval in the Federal Courts that May Mean the Rocks for the Home Depository of the System Around Which the Clouds are Becoming Ominous.**

The pilots of the system responsible for the wrecking of the Holbrook State Bank succeeded for more than two years to carry on their manipulations unmolested and stall the inevitable crash that came on the 11th of last December.

They have succeeded in using the favorite stall to ward off the wrath of an outraged and plundered community for some time—but tomorrow morning the case will be called in the superior court and the wheels of justice will begin to grind on the big grist that has multiplied with every hour since the closing of the system's trap last December.

The sensational developments that have been published exclusively in the columns of the News will be more than substantiated when the reeking mass of incriminating evidence is laid before a grand jury and the court.

Even after the cards of the prosecution were shown the manipulators at the home office in Albuquerque—they are still stalling and side-stepping in the hope that there will be some way to crawl from under the load that has been accumulating so long.

It is said that they have threatened to withdraw all business relations from Arizona—and, judging from past performances of the system, their withdrawal would immediately establish the confidence of the public in Arizona commercial circles—and remove a pending sign of danger for the safety of commerce in the district that the system now infests.

The laws of Arizona, the laws of honesty and the by-laws of their incorporation were, to them, scraps of paper that meant nothing—and with impunity and design they set out with nothing at stake to cajol their unsuspecting customers into a trap.

With \$14,500 as their capital stock they managed to loan \$146,589.07 of other people's money that is long past due—gambled in questionable securities and conducted the bank on the lines of a hock shop until all the system's resources and all the system's men, couldn't put the Holbrook unit on its feet again.

At the present time the depositors are clamoring for their squandered deposits, the officers of the law are clamoring for a showdown at the bar of justice, and the system is clamoring for more time to determine the avenue of least resistance to get out the back way and salvage as much of the swag as possible.

Reading between the lines of the mass of incriminating evidence in the investigators' report—and the part played by the First National of Albuquerque—it is not probable that the First National's charter will call for much business in Arizona or any other state when all the "financial coyotes" of the system are skinned that are now slated for their day in court.

Article 5 of the Articles of incorporation of the Holbrook State Bank reads:

"The highest amount of indebtedness to which this, incorporation shall subject itself, over and above the amounts due depositors, shall be two-thirds of the actual paid in capital of the incorporation."

From the very start of the Holbrook unit the system became active in its manipulations to override its own laws and the laws of the state of Arizona and the national banking laws.

The unsigned minutes of Feb. 4, 1918 contains the following paragraph:

"A resolution was read and adopted empowering the president and secretary to obligate the bank to the extent of \$22,000 with the Citizens National Bank of Los Angeles."

This act in itself is a violation of the Articles of incorporation of the Holbrook State Bank as mentioned in the preceding paragraph.

There are copies of formal resolutions of the directors of the Holbrook State authorizing the borrowing of money from time to time, the investigators say, but the most of these copies are unsigned and there are no official minutes of these meetings. We ran across several references to authorizing loans with the Citizens National of Los Angeles, First National of Flagstaff and the National Bank of Commerce of New York, but we were unable to find the minutes actually authorizing the loans.

"Thus it appears that the minutes of the corporation up to February, 1918 were more formal than indicative of actual management of the bank and subsequent to February, 1918 it appears that the directors held no formal meetings, except the ones mentioned in the preceding paragraphs, and the affairs of the bank appeared to be entirely in charge of L. M. Reynolds."

From this time on it was a closed corporation—as tight as a blind pig, until it was closed for liquidation and investigation.

Some interesting sidelights on the actual investments of the directors of the capital stock of the Holbrook State are given in the following comments by the special investigators:

"The entire records that we examined give us the impression that the investments of the directors, other than L. M. Reynolds, in the stock of the Holbrook State were at all times more fictitious than real."

Five pages of the report are taken up with a graphic description of the juggling of the capital stock from one to another without any actual money paid into the concern.

A paragraph under section five of the articles of incorporation of the

Holbrook State reads as follows:

"The board of directors shall, at their first meeting following the annual stockholders meeting, elect a president, vice president, cashier, and secretary, all of which shall be stockholders."

The investigators say "It is questionable if the status of L. C. Cole or R. R. Turbeville gave them the right to be called stockholders, although these men acted as secretary and cashier for the bank without bond."

It was a well established custom of the Holbrook State to re-discount notes at the First National of Albuquerque and at other banks without stating the liability for such re-discounts on the books of the company.

There were a great many transactions between the Holbrook State and the First National of Albuquerque and the Holbrook State and other banks that represent the re-discount of notes given the Holbrook State for which the Holbrook State showed no liability at any time during its history.

The investigators were unable to find record of but few loans made by the Holbrook unit that were ever sold outright to other banks, as in nearly all instances notes were re-discounted with other banks bearing the endorsement of the Holbrook State and the Holbrook State always took back their notes upon their due dates—even in cases where the words "without recourse" were used in the endorsement.

The letters submitted with the report disclose the attitude of the First National of Albuquerque in December, 1917, toward the line of preferred credit they were at that time carrying for the Holbrook State.

In brief, the plan of the First National was that the Holbrook unit should show re-discounts of about \$35,000; bills payable for \$20,000, secured by a like amount of paper, together with twenty per cent added as security; and the First National would carry approximately \$80,000 of re-discounts without the necessity of showing that amount as re-discounts on the books of the Holbrook unit.

In his letter of December 4, L. M. Reynolds strenuously objected to the showing of re-discounts or bills payable, and preferred that the line of credit the home office was carrying for the Holbrook unit should not show in the Holbrook bank. That there was no further objection on the part of the home office to the practice of carrying these re-discounts, although they did not appear in the records of the Holbrook bank, is proven beyond a doubt by the letter published last week to a protesting debtor of the bank. The policy once established with the control of L. M. Reynolds it was adhered to by the First National during the checkered career of the Holbrook State.

A letter from G. L. Rogers, vice president of the First National further substantiates the policy existing between the two banks, in that the First National refused a certificate of deposit for \$14,000, saying that they preferred to have notes in place of the ones they then held, part of which were past due.

Page 55 of the letter file shows the temporary nature of some of these re-discounts, and the reason for the temporary nature of most of the re-discounts that were temporary was the expectation of Louie and his assistants of the coming of the bank examiner. This letter was addressed to J. M. Reynolds and is a frantic appeal to save the Holbrook unit from showing up things they wished covered up.

The investigation shows that a note for \$4,000 signed by L. M. Reynolds was taken temporarily by the First National and was purely an inflation of the balance carried by the First National, as the re-discount did not appear in the records of the Holbrook unit.

Another letter from G. L. Rogers, vice President of the First National

of Albuquerque to L. M. Reynolds under date of Jan. 31, 1920 shows that the First National and the Savings unit were carrying at that time approximately \$150,000 worth of paper for the Holbrook bank, the liability for which re-discount did not appear in the records of the Holbrook bank. On January 31, 1920, bills receivable of record in the Holbrook State show \$184,673.79; by adding to this amount of approximately \$150,000 re-discounts with the two above banks it appears that the Holbrook State had loaned at that time more than \$334,000. \$50,959 of which was endorsed without recourse.

A letter dated Jan. 7, 1920 to the home office shows the attitude of L. M. as to certain paper held by him at that time and which was causing worry for the home office. He says:

"However, we are in communication with a new cattle loan company, which has just been organized in Los Angeles, with a two million capital, fully paid, and they have led us to believe that we will be able to deal with them. If this be the case we will unload all we can on them and certainly lighten up with you."

The report shows that the First National of Flagstaff on May 23, 1918 would not take any paper from the Holbrook State without endorsement "without recourse."

The report shows the acquisition of certain paper by the First National of Flagstaff with the plain endorsement of the Holbrook State thereon, and although the Holbrook State did not show this contingent liability on their books, it is clear that these notes were to be made good by the Holbrook State at their maturity. However, because of the excessive line the Flagstaff bank was carrying for the Holbrook State an understanding similar to the understanding with the First National of Albuquerque was arranged, namely, that notes should bear the endorsement "without recourse," but the notes were really an obligation of the Holbrook State Bank.

The Hollywood National Bank, National Bank of Long Beach, American Trust and Savings bank of El Paso were all offered paper on this same arrangement.

**Process of Liquidation**  
Notes held by the First National Bank of Albuquerque which they had taken over from the Holbrook State were reduced during the period from August 2, 1920 to December 11, 1920 by approximately \$47,000.

On August 2, 1920 the Holbrook Bank showed bills payable at the National Bank of Commerce and re-discounts with the Citizens of Los Angeles aggregating \$34,000.

With the receipt of approximately \$40,000, the net amount left with the Holbrook State from the sale of the county bonds, the Holbrook State took up bills payable and re-discounts aggregating \$22,635, leaving \$10,000 in bills payable at the National Bank of Commerce in New York and obtaining an additional \$10,000 on Oct. 14, which was liquidated by a payment on Oct. 22, 1920. Thus on Nov. 22 all the liability for bills payable and re-discounts were eliminated from the records of the bank. And page 101 and its reverse side throw an interesting light upon the information which the First National had relating to the application of this county money.

As a further step in the process of liquidation of the available assets Liberty Bonds aggregating \$9050.00 were sold for \$8,168.45, a loss of \$875.74—as these were carried on the books at a valuation of \$8544.19.

The letters show not only the actual process of this sale but also an effort on the part of L. M. Reynolds to take down \$3000 of Liberty bonds held by the state treasurer as security for the state deposit.

The report shows that under the heading "First National Bank of Albuquerque Deposit Account" drafts on the First National during the period of Dec. 4 to 11 in favor of the Federal Reserve of Los Angeles and other banks aggregating \$11,137.27 were not honored by the First National and that the First National charged back against the account of the Holbrook State subsequent to Dec. 11, items included in former remittances aggregating \$3,050.21. Two shipments of currency to the Los Angeles branch of the Federal Reserve were made a few days before the closing of the bank.

It is worthy of note that on December 1, the balance of the First National was \$1,528.84 but that on Dec. 10 this balance had increased to \$12,357.26 and on Dec. 11 was decreased to \$7,473.37 because of notes returned by the First National aggregating \$16,900 and offset by notes sent to Albuquerque. Page 110 of the letter file clearly shows the effort of L. M. to shovel into the home office all the available funds.

A letter from R. H. Hanna of the home office shows the attitude of J. M. Reynolds at that time, and its reverse side shows the knowledge of L. M. Reynolds of the seriousness of the situation.

A letter signed G. L. Rogers indicates that the First National was protecting itself on notes taken over from the Holbrook State which they considered good, and which were never returned by the First National to the Holbrook Bank.

Page 122 of the report, although undated indicates that during the latter days of the Holbrook State J. M. Reynolds made a frantic attempt to keep the ruinous policy of L. M. from rocking the boat, and page 123 is a memorandum in the files relating to the final transfer of certain documents that were essential.

Here is the order to gather up the fragments of what is left and hurry it to the First National before it is too late:

Get certified copy of R. E. mortgage on—loan and send in at once.  
Get certified copy of C. M. on—loan and send in at once.  
Get R. E. mortgage on Hancock loan and send at once.  
Get certified copy of R. E. mortgage on Wakefield note and send in at once.  
Wire to Los Angeles to sell the Liberty bonds and transfer the balance to Albuquerque at once.

These were frantic days at the home office when they were sending out the S. O. S. call to salvage the remnants of the Holbrook unit.

When the bank examiner called down the Holbrook unit on account of their low reserves he was made to believe that the Turbeville loan was \$30,634.90, when in reality \$20,000 additional to this same amount was planted in Albuquerque. In other words, the records were so juggled that the bank examiner could not determine the true status of this loan, at that time \$50,634.90.

While he was assuring the examiner and other banks that he was trying to unload on that the Turbeville loan was good, he penned this pathetic appeal to Turbeville's father down in Texas:

Sept. 27, 1920.  
J. H. Turbeville,  
Archer, Texas.

Even yet I have not heard from you. I would certainly appreciate a line from you as to whether you feel that you can help us out of this deal, as to date it looks just as black to us as it ever did.

Would you please let me hear from you if you will help in any way at all. I assure you it will be an act of brotherly love and a Christian act, I would say if you will help at all.

L. M. REYNOLDS.

An interesting tale that reads like fiction is the story that surrounds the Fancher loan of \$53,000 and how it grew from \$5,000 loaned to a solicitor for printing on July 17, 1918, to more than three times the amount of the capital stock of the bank. The First National also entertained the Fanchers, and a footnote on a letter signed by J. M. Reynolds to Louie dated Feb. 4, 1919, says:

"Fancher called today. I told him we would not handle him longer if he gave us good bonds and a 50 per cent bonus."

The investigators who raked over the system's remains, conclude their report with:

"We call your attention to the file of correspondence submitted with this report on bills payable" for the reason that the correspondence shows a continuous effort on the part of L. M. Reynolds to borrow money from various sources in various ways, much of which effort was unsuccessful. It also shows very clearly that many of the notes still unpaid Dec. 11, 1920, were used as collateral at the First National at Albuquerque. We have come to the conclusion that there are several undeveloped sources of funds coming into the possession of L. M. Reynolds and that there are several undeveloped causes for payments reflected in the withdrawal side of the personal account of L. M. Reynolds."

Judging from the mass of evidence that is ready for the superior court and the federal court it is not a question of the system conceding to do business in Arizona—as they have threatened to withdraw—but a question of the entire system being forced into liquidation and retirement from the banking circles of the southwest.

Banks are among the most useful agencies of civilization when properly and honorably conducted.

Into them the surplus money of a community is collected as waters into a reservoir, to flow out into all the channels of commerce and relieve the business needs of a community in every direction. It is to the interest of the people whom such institutions serve that they shall be made as safe and efficient as possible.

In order that this state of efficiency may be attained and preserved the fullest scope consonant with safety must be granted to the skill and energy of trained men in the management of such funds.

By the exercise of this efficiency banks must be preserved from failure, and the looting of same by dishonest bankers.

The great public confidence reposed in our state and federal laws for the guidance of financial institutions must not be destroyed.

To this end the citizens of Holbrook and Northern Arizona must see to it that the culprits who have connived for months and years to fleece individuals, the county and the state are not only driven from the ground but held to answer for their criminal peculations.

The conniving clique in Albuquerque are going to have a hard time to square their account with the state and federal courts—and the First National will have an awful time convincing a court that the system is deserving of a charter under the laws regulating the conduct of National banks—when the silent but convincing testimony of the part they played in wrecking the Holbrook State is put on record.

John R. Hulet, the receiver, returned from Albuquerque Wednesday night, where he was in consultation with the home office and from his conversation he gave the impression that the First National would eventually come through—but it would not probably be before May.

This constant stalling and avoiding a showdown is not in any manner satisfactory to the depositors—

who should be considered first in extending leniency to a band of crooks.

Manana! Manana! the threadbare cry of the system is today a decayed chestnut—too many mananas have drifted by and the depositors know no more today than they did when the Holbrook unit was sacked and abandoned last December.

### THINGS DOING IN THE HOLBROOK OIL FIELD

#### THE ADAMANA

The Adamana is now 180 feet in the cap rock—and the oil showings are better with every foot attained. The management is enthusiastic over the ultimate outcome and footage is being made every day.

H. W. Rosenthal returned from the well this week with samples of the bailings which would readily burn with a flash when ignited—and the indications at present are such as to cause an optimistic atmosphere around the offices of the company.

#### HOLBROOK OIL

Work of underreaming at the Holbrook well was delayed this week on account of the breaking of a ratchet socket. Pending the receipt of a new socket other work is being accomplished. The hole is in excellent shape and it is not expected the delay will be of long duration.

#### BUSINESS IS GOOD

The Hall Lumber Company is one of the few institutions in Navajo county that is getting by the lull in business that obtained over the entire country recently. And one of the main reasons for "keeping its head up and going" is the fact that the management adopts the up-to-the-minute system of advertising when the business indications require it. "Business is good" is the motto of this concern, and if it is not good we know the tonic that will make it good; printer's ink.

#### ANOTHER PARTY FOR HAZEL

Sheriff Newman left yesterday morning for Phoenix, where he went to bring back Hazel Feek, who will be tried in the justice court on a charge of perjury. Hazel swore to a complaint against a government officer, and when the case came to trial she repudiated the allegations made to County Attorney Greer. In her coming perjury case she may repudiate her former testimony. This being the case Judge Easley will probably be called upon to adjudge Hazel a nut.

#### TAXES COMING IN

The Winslow real estate of Geo. Cross was sold at the court house last Monday by the sheriff for taxes. It was bid in by Mrs. Julia Mahoney of Winslow for \$53.01. These sales by the sheriff promise to be quite popular for the next few months unless the delinquents liquidate. Over \$6,000 in delinquent taxes has been collected this week by Tax Collector Lore. Unless all present signs fail, the auctioning off of real estate for taxes will soon be a recognized outdoor sport at the court house.

#### A BUM LOAN LIQUIDATED

The real and personal property of P. T. and Verma Coleman were sold at sheriff's sale at the court house last Saturday, for the liquidation of a note to the Holbrook State bank. The real estate and most of the personal property was bid in by Judge Sapp representing the receiver of the bank.

The residence of Pat Slaughter, near Springville was completely destroyed by fire last week. It was a modern home, expensively furnished, and the loss is said to be more than \$10,000. Nothing was saved. There was no insurance. Moral: You better see Lloyd Henning before a blaze catches you.

#### SERVICES IN THE M. E. CHURCH

Frank R. Speck, Pastor  
Sunday School, 10:00 a. m.  
Public worship, 11:00 a. m. Sermon, "Counting the Cost." Anthem, "Hear My Crying, O God," Ashford. Epworth League, 7:00 p. m. Topic, "The Golden Whirlpool."

Real men everywhere are learning the value of giving one day a week to God. The triangle of life includes the physical, the intellectual and the spiritual. No man is at his best who neglects to develop any side of this triangle. Spend an hour in God's house on next Sunday morning and you will be more efficient in your business next week.